Bill Draft 2015-MCz-193A: Eliminate Use of Development Tiers.

2015-2016 General Assembly

Committee:		**Date:**	January 27, 2016
Introduced by:		**Prepared by:**	Dan Ettefagh Committee Counsel
Analysis of:	2015-MCz-193A		

***SUMMARY:** The bill draft would require various State entities (i) to eliminate the use of the current development tier designations determined by the Department of Commerce and (ii) to develop new criteria, specific and relevant to each program, and report on the new criteria as a proposed replacement for the tier structure. The draft would also establish and fund the North Carolina Commission on Economic Development for Distressed Communities to develop a comprehensive plan to address chronic distress. Differences from the previous version include modifications to Commission membership, specifically adding the Department of Revenue to entities required to eliminate use of the tier structure, eliminating the tier structure as of 1/1/7 for economic development purposes and replacing it with an index system, using modified factors to measure distress, and conforming changes in economic development programs to account for the elimination of the tier structure.*

CURRENT LAW: The Department of Commerce annually assigns tier rankings to each county in the State in order to measure relative economic health using four factors: (i) average rate of unemployment from lowest to highest for the most recent 12 months, (ii) median household income from highest to lowest for the most recent 12 months, (iii) percentage growth in population from highest to lowest for the most recent 36 months, and (iv) adjusted assessed property value per capita from highest to lowest for the most recent taxable year. Counties with an annual rank of 1-40 are tier 1, with an annual rank of 41-80 are tier 2, and with 81-100 are tier 3 unless the tier designation for the county is adjusted by certain statutory provisions, including adjustments for certain small counties, for development tier one areas, and for industrial parks.

The tier rankings are used by Commerce and other State entities for a variety of programs, including the North Carolina Development Farmland Preservation Trust Fund (DACS), the Spay and Neuter Program (DACS), the Abandoned Manufactured Home Cleanup Grants Program (DEQ), the State Wastewater Reserve (DEQ), the State Drinking Water Reserve (DEQ), the Public Safety Assistance Points Grant Program (911 Board – Department of Information Technology), Oral Health Preventive Services (DHHS), Medication Assistance (DHHS), Qualified Allocation Plan for Low Income Housing Tax Credits (NC Housing Finance Agency), the Strategic Prioritization Funding Plan for Regional Impact Transportation Investment Projects (DOT). Additionally, certain tax benefits utilize the tier structure.

BILL ANALYSIS: The draft would require State entities to eliminate and replace all programmatic use of the current tier structure. State entities other than the Department of Commerce would independently develop and report[1] on new program-relevant criteria specific to the goals and purposes of each program by 10/1/16 and would cease to use the tier designations by 7/1/17.

[1] Each entity would report to the Fiscal Research Division at the North Carolina General Assembly and to each entity's respective oversight committee.

The Department of Commerce's annual ranking pursuant to G.S. 143B-437.08 would change in the following ways:

- The tier system would be eliminated. In addition, legislatively set criteria for JDIG, One NC, Community Development Block Grants, the Utility Account, and other programs concerning eligibility, award calculations, and match requirements are replaced with broad Departmental discretion subject to change without legislative action. For example:
    - The statutory exemptions for local matches from the 25 most distressed counties for the Utility Account and for Community Development Block Grants are eliminated with the Department using the index rankings to determine appropriate local match requirements.
    - The minimum job creation requirements for JDIG awards set in statute are eliminated, with the Department using the index rankings to establish program job creation minimums. In addition, the requirements for JDIG added in 2015 regarding the maximum JDIG award calculation and the percentage of JDIG awards diverted from the business and going to the Utility Account are eliminated, with the Department using determining appropriate percentages for calculation of award and funding of the Utility Account from JDIG awards.
    - The local government match formula established in 2015 for the One NC Fund is eliminated, with the Department determining applicable program local match requirements.
    - The tier limitations of Main Street Solutions is eliminated, with the Department using the index rankings to identify appropriate recipients.
    - The rankings limitations for economic development grants or loans by the Rural Economic Development Division are eliminated, with the Department using the index rakings to determine economic distress and eligibility criteria.
- The factors used annually to determine economic distress would retain rate of unemployment and median household income; however, the factors of percentage growth in population and adjusted assessed property value per capita would be replaced with average wage and percentage of adults 25 years or older without a high school diploma or equivalent certificate.
- The ranking of the counties would be an index, linked to how each county, with respect to each factor, performed compared to the State's performance in the same factor.
- Adjustments made for small counties, locked tier 1 status for a minimum of 2 consecutive years, and certain types of parks would be eliminated.
- Any aggregate tier-based reporting for Commerce's results with each economic development program would no longer be included in programmatic or economic development reports.

The draft would also establish the North Carolina Commission on Economic Development for Distressed Communities, composed of 23 members. The membership would be composed of 10 appointees of the President Pro Tempore of the Senate, six of whom would be Senators and four of whom would be representatives of the general public from the 20 most distressed counties for the previous six years (with language encouraging appointments to be made from areas within distressed counties that are distressed); 10 appointees of the Speaker of the House of Representatives, six of whom would be Representatives and four of whom would be representatives of the general public from the 20 most distressed counties for the previous six years (with language encouraging appointments to be made from areas within distressed counties that are distressed); the President of the North Carolina

Community College System or designee, the President of Golden LEAF, and the Secretary of Commerce or designee, all of whom would be ex officio, nonvoting members. The Secretary or designee would serve as chair. The Commission would reexamine strategies for identifying and assisting economically distressed communities to develop a comprehensive State strategy to address chronic distress and better target State aid by, among other things, determining how and at what level geographic levels economic distress should be measured, deciding what measures should be used to identify economic distress, reviewing existing development programs, identifying how to use State resources to alleviate distress, considering other models of economic development, recommending strategies for new and improved economic development, and creating a system to measure goal achievement, time lines, and action steps to reduce or eliminate economic distress. The draft would provide $200,000 per year for FY 16-17 and FY 17-18 to accomplish its mission, including hiring non-State personnel to assist, and the Department of Commerce shall provide facilities and administrative and professional staff to assist the Commission. The Commission will terminate on March 1, 2018, or upon the filing of its final report to the General Assembly, whichever occurs first.

EFFECTIVE DATE: Sections 1 and 3 of the act are effective when they become law. Section 2 of the act becomes effective November 30, 2016, and applies to awards and determinations made on or after January 1, 2017.